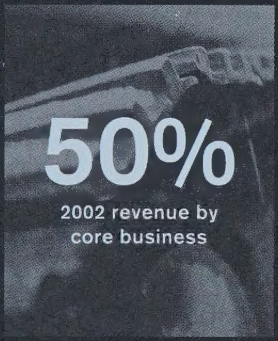
Wajax Limited 2002 Annual Report

Wajax at a glance

Wajax is a diversified company that has three core businesses engaged in the sale and after-sales parts and service support of Mobile Equipment, Industrial Components and Diesel Engines, through a network of 113 branches across Canada and the western United States. Its customer base spans natural resources, construction, manufacturing, industrial processing and utilities.

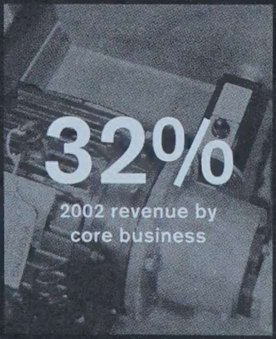


Mobile Equipment is the Company's traditional core business. Its two operating units distribute, customize and service product lines from leading manufacturers through a network of 31 sales and service branches with 899 employees.

Products Container handlers, Cranes, Crawler tractors, Delimbers, Excavators, Forest feller bunchers, Forest harvesters, Forwarders, Lift trucks, Loader backhoes, Log loaders, Mining products, Paving products, Shovels, Skidders, Trucks, Utility equipment and Wheel loaders.

Markets Construction, Forestry, Intermodal, Manufacturing, Materials handling, Mining, Municipal, Oil and gas, Plant process equipment and Utilities.

Operating units Wajax Industries (Western Canada), Wajax Industries (Eastern Canada)

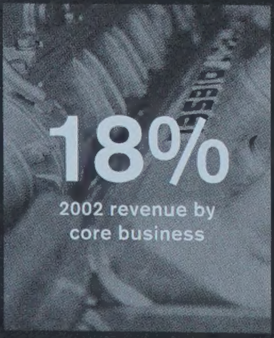


Industrial Components, our next largest business, distributes bearings, power transmission equipment, hydraulics, and process and automation technologies. This business has 844 employees operating a network of 68 distribution, repair and service branches located throughout Canada and the western United States.

Products Bearings, Cylinders, Heat exchangers, Hoists, Hoses and fittings, Hydraulics, Mixers, Motors, Pneumatics, Power transmission products, Process pumps, Seals and Valves.

Markets Agriculture, Chemical, Construction, Fishing and marine, Food, Forestry, Industrial processing, Mining, Petrochemical, Pulp and paper, Steel and Transportation.

Operating units Kinecor Inc. (Canada), Spencer Industries, Inc. (Western United States)



Our Diesel Engines business consists of two operating units which distribute and provide parts and service support for Detroit Diesel engines, Allison transmissions, Kohler generators and other complementary product lines. These divisions, which have 14 branches and 541 employees, also distribute and custom-assemble power generation sets, complete marine propulsion packages and complete power units.

Products Diesel engines, Natural gas engines, Power generators, Power take-offs, Propellers and Transmissions.

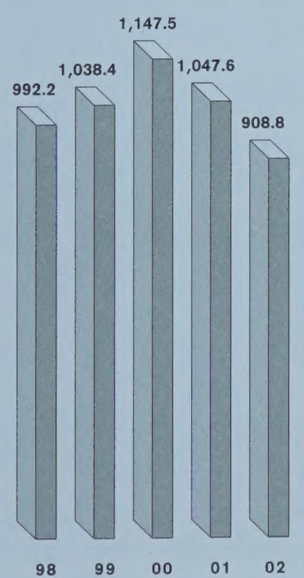
Markets Agriculture, Construction, Fishing, Forestry, Industrial, Mining, Oil and gas, Power generation and Transportation.

Operating units Waterous Detroit Diesel-Allison (Alberta/Northeastern British Columbia/Yukon/Northwest Territories), Detroit Diesel-Allison Canada East (Quebec/Atlantic Canada)

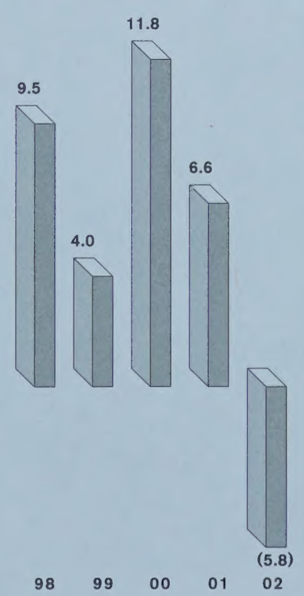
2002 Financial highlights

For the years ended December 31 (in thousands of Canadian dollars, except per share data)	2002	2001	2000
Revenue	$ 908,789	$ 1,047,564	$ 1,147,489
Net (loss) earnings before other items*	(5,842)	6,574	11,763
Net (loss) earnings per share before other items*	(0.37)	0.42	0.75
Net (loss) earnings	(25,794)	8,702	(9,666)
Net (loss) earnings per share	(1.64)	0.55	(0.62)
Weighted average number of common shares outstanding	15,696,960	15,696,960	15,696,960
Total assets	$ 442,038	$ 554,505	$ 623,160
Funded debt, net of cash	114,396	175,804	203,807
Shareholders' equity	169,970	204,826	196,124

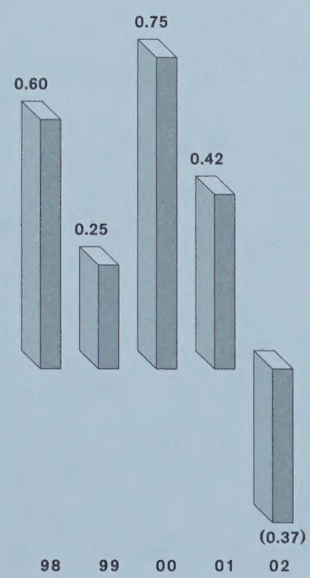
Revenue
(in millions of Canadian dollars)



Net (loss) earnings before other items*
(in millions of Canadian dollars)



Net (loss) earnings per share before other items*
(in millions of Canadian dollars)



* Other items in 2002 include a $25.5 million ERP writedown amount ($15.7 million after tax), a $3.0 million charge ($1.7 million after tax) representing a provision for restructuring of the Industrial Components and Mobile Equipment segments and other severance costs, and a $4.2 million charge ($2.6 million after tax) for costs associated with unwinding interest rate swaps. In 2001 other items included a $6.1 million pension income amount ($3.5 million after tax) and a $2.4 million charge ($1.4 million after tax) representing a provision for restructuring of the Industrial Components segment and the information technology function.

We are committed to immediately improving our competitive position

To our shareholders 2002 was a turbulent year for Wajax. Faced with tough economic and market conditions, and struggling with the implementation of an enterprise resource planning ("ERP") computer system in the Industrial Components division, the company's level of profitability was disappointing and unacceptable to shareholders.

Taking decisive action Clearly, Wajax had to move quickly and aggressively to restore profitability. This resolve was evident in several key decisions and actions.

In October, Neil Manning was appointed President and Chief Executive Officer. Neil, who initially joined Wajax in May as a board director, has more than 20 years of industry experience.

We abandoned the ERP computer system, which was implemented in 10 Canadian branches of the Industrial Components business and was to have been eventually adopted across the entire organization. Although the decision resulted in a regrettable financial charge, we believe continuing with the initiative would have required tremendous time and resources that Wajax could not afford while earnings remained under pressure. Most importantly, we concluded that the anticipated rewards of the ERP system were too far into the future to support continued investment. This decision also allowed us to reduce our corporate office staff by more than 30%.

As part of Wajax's efforts to strengthen the performance of Industrial Components, Gordon Duncan, an experienced executive in the distribution sector, joined Wajax as Senior Vice President of the division. In October, staffing levels in Industrial Components were reduced by approximately 10%. This reduction, combined with other cost reduction activities, will yield annualized cost savings in the range of $6 million.

Wajax's tougher approach to cutting expenses and lowering selling, general and administrative costs was also evident in the closure of two branches and staff reductions in the eastern part of the Mobile Equipment division. These measures were necessary to align the division's cost structure with particularly weak market conditions in eastern Canada.

During 2002, Wajax also strengthened its balance sheet. The company continued its working capital reductions, aggressively cutting approximately $61 million in the Mobile Equipment division, mainly through the sale of Pacific North Equipment Co., the company's Seattle, Washington based dealer. The disposition will have the added advantage of allowing Mobile Equipment management to concentrate efforts exclusively on its operations in Canada. A further $8.8 million of working capital was eliminated from Industrial

Components. As a result, we succeeded in reducing the company's funded debt by $61.4 million to $114.4 million – a significant accomplishment that allows greater financial flexibility as we move forward.

A clear focus In 2003, we will remain focused on driving Wajax to profitability. At the same time, we intend to move forward with our strategic priorities: growing aftermarket sales and service capabilities, strengthening product offerings and improving distribution systems. Since the strategy's introduction in 2000, Wajax has made good progress and we intend to increase our pace in 2003.

To monitor our progress, Wajax uses a value creation model to set benchmarks and performance standards. Based on an analysis of performance metrics, key business decisions are made, including the allocation of capital and other resources across the company. Value creation is a fundamental way of assessing Wajax's performance and remaining accountable to our shareholders.

The greatest challenge and overriding priority for Wajax in 2003 will be the restoration of profitability in the Industrial Components division, with particular focus on its U.S. based Spencer Industries operations. We are replacing the ERP computer system with the software system used elsewhere in the division and expect that the introduction of a common computing platform will facilitate more efficient operations and improved customer service.

We also expect to further strengthen Industrial Components' financial performance through cost reductions, improved margins from new price matrices, more effective logistics, lower freight costs and more focused supplier relationships. The division is also directing its efforts at asset reduction, emphasizing better inventory control and tighter management of outstanding receivables.

Prudent asset management, expense control and expansion of aftermarket capabilities will continue to be strategic priorities for Mobile Equipment in 2003. With the division continuing to solidify its role in the aftermarket sector, many branches are now staffed with as many aftermarket specialists as equipment sales representatives. Mobile Equipment intends to grow the market share of its leading quality product lines in the construction, material handling, forestry and mining sectors.

The company's Diesel Engines business not only continues to deliver solid results year after year, its two operating units – Detroit Diesel-Allison Canada East ("DD-ACE") and

We are committed to delivering value-added services to our customers

We are committed to strengthening profitability and enhancing shareholder value

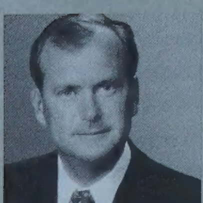
Waterous Detroit Diesel-Allison ("Waterous") – are considered among the very best Detroit Diesel franchises in North America. We expect the Mercedes-Benz medium-size engines, which were added to the product lines of both DD-ACE and Waterous in late 2002, will fuel growth in parts and service sales. With a new facility opening in Calgary in March, new opportunities are emerging for Waterous. The state-of-the-art facility has extensive capacity, allowing for an expansion of sales and service volumes.

A strong foundation for the future Despite the difficulties of 2002, we are confident about Wajax's ability to achieve improved levels of performance. The company has an experienced management team and a corps of skilled employees who are dedicated to delivering quality and exceptional customer service.

Wajax took some tough but necessary measures in 2002. We want to assure you that Wajax will continue to adhere to its strategic plan and proceed with a sense of urgency to implement changes and improvements that will help the company achieve real, sustainable progress.

An effective board of directors and sound corporate governance is another important way in which we enhance long-term value for our shareholders. We want to underscore Wajax's commitment to strong corporate governance. While the company already has an effective corporate governance system, Wajax will continue to monitor regulatory initiatives from the Toronto Stock Exchange and the Ontario Securities Commission. As clarification on these initiatives becomes available, Wajax will implement appropriate measures.

In closing, we would like to acknowledge two members of the Wajax board of directors who stepped down in 2002 for their long-standing and devoted service. Mr. David Torrey served on the board for 39 years and Mr. Donald Sobey was a director for 27 years. We sincerely appreciate the guidance and counsel they provided to Wajax. We would also like to thank our shareholders, employees, customers and suppliers for standing by us through a difficult year.



Paul D. Sobey
Chairman
of the Board

Neil D. Manning
President and
Chief Executive Officer

Management's discussion and analysis

The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and accompanying Notes. Unless otherwise indicated, all financial information is in millions of dollars, except per share data.

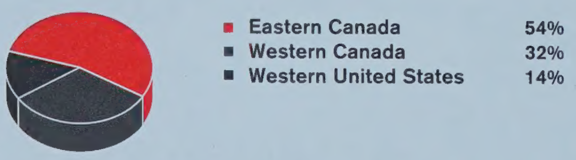
Results of operations

Consolidated results		2002		2001
Revenue	$	908.8	$	1,047.6
Net (loss) earnings before other items	$	(5.8)	$	6.6
Other items (after tax)	$	(20.0)	$	2.1
Net (loss) earnings	$	(25.8)	$	8.7

Earnings per share		2002		2001
Net (loss) earnings before other items	$	(0.37)	$	0.42
Other items (after tax)	$	(1.27)	$	0.13
Net (loss) earnings	$	(1.64)	$	0.55

Revenue of $908.8 million in 2002 decreased from $1,047.6 million in 2001. A net loss before other items of $5.8 million, or $0.37 per share in 2002, compared to net earnings of $6.6 million, or $0.42 per share recorded the previous year. After other items, a net loss of $25.8 million, or $1.64 per share, was recorded in 2002 compared to net earnings of $8.7 million, or $0.55 per share in 2001.

Revenue by geographic region



Revenue by market

The following factors contributed to the change in year-over-year results from operations before other items:

- The Company's Canadian Mobile Equipment operations were negatively impacted on a comparative basis by the relinquishment of a major construction product line in western Canada in 2001 and by a slowdown and resulting competitive pricing in the forestry market in eastern Canada.
- Earnings in the Industrial Components segment decreased from last year as a result of lower volumes and margins due to a general economic downturn in the industrial and forestry sectors and the disruption caused by the enterprise resource planning ("ERP") computer system implementation.
- The Diesel Engines segment revenue and earnings decreased primarily because of lower equipment sales in western Canada as a result of reduced oil exploration activity in Alberta.

- A continued focus on working capital management and the sale of the assets of Pacific North Equipment Co. ("PNE"), the Company's U.S. based Mobile Equipment business, led to further debt reduction in 2002. Funded debt, net of cash, decreased $61.4 million compared to last year. As a result, the Company's year-end debt to equity ratio of 0.67:1 was significantly improved from last year's ratio of 0.86:1.
- The Company adopted the new Canadian Institute of Chartered Accountants ("CICA") accounting standards for goodwill and other intangibles effective January 1, 2002.
  - Under the new standards the Company no longer amortizes goodwill. Goodwill amortization for 2001 was approximately $3.2 million or $0.21 per share.
  - During the fourth quarter of 2002 the Company completed the transitional impairment test as required under the new standards and concluded that impairment existed in the goodwill associated with Spencer Industries, Inc. ("Spencer"), the U.S. based operation of the Industrial Components segment. As a result, the Company recorded a $9.1 million charge directly to retained earnings, effective January 1, 2002, to reflect the impairment.

Other items totalling $32.7 million of expense ($20.0 million after tax or $1.27 per share) were recorded in 2002, compared to $3.7 million of income ($2.1 million after tax or $0.13 per share) recorded in 2001. The other items included the following:

- During the year the Company decided to abandon implementation of the ERP computer system. As a result, a pre-tax charge of $25.5 million ($15.7 million after tax) was recorded. Of this amount, $20.0 million pre-tax ($12.4 million after tax) was recorded in the third quarter of 2002 when the decision was made to cancel implementation of the ERP computer system in the Company's Mobile Equipment and Diesel Engines segments. A further charge of $5.5 million pre-tax ($3.4 million after tax) was recorded in the fourth quarter after the Company decided to abandon implementation of the ERP computer system in the Industrial Components segment. As a result, the carrying value of the ERP computer system is $2.9 million at December 31, 2002. Of the remaining costs, $0.7 million relate to operations that will continue to use the system and will be amortized over the estimated period of use, ending in 2003.
- A $3.0 million pre-tax charge ($1.7 million after tax) recorded in 2002 represents a net provision for restructuring costs. This provision includes costs for streamlining the operations of the Industrial Components and Mobile Equipment segments, as well as other severance costs. These costs were offset by a $0.5 million recovery of provisions on the sale of PNE on October 31, 2002. In 2001, the Company recorded a $2.4 million pre-tax charge ($1.4 million after tax) representing a provision for restructuring of the Industrial Components segment and information technology function related to the corporate office and Industrial Components.
- During the year the Company incurred pre-tax costs of $4.2 million ($2.6 million after tax) associated with the unwinding of $40.5 million of fixed interest rate swaps. The fixed interest rate swaps were no longer required as a result of a reduction in the amount of the Company's floating interest rate debt.
- In the fourth quarter of 2001, a $6.1 million pre-tax pension income amount ($3.5 million after tax) was recorded to reflect the expected positive settlement impact from revising the benefits payable under the Company-sponsored pension plan from a defined benefit basis to a defined contribution basis.

Interest expense for the year ended December 31, 2002 was $15.0 million compared to $18.2 million the previous year. The $3.2 million reduction was due to the decline of $54.3 million in the average amount of funded debt outstanding during the year.

Income tax recoveries for the year were approximately $5.1 million lower than expected due to the write-off of a portion of future income tax balances pertaining to U.S. operations.

Difficult economic and market conditions during the course of 2002, in addition to disruptions caused by the ERP computer system implementation in Industrial Components, prevented the Company from making the progress it had expected in achieving its strategic objectives. However, specific achievements worth noting include the following:

- The Company's disposition of PNE yielded total cash proceeds of approximately $17.0 million and contributed to reduced debt levels and interest costs.
- Cost cutting measures taken by the Company in the Mobile Equipment and Industrial Components segments in late 2002 and early 2003 will result in annual cost savings of more than $7.8 million.

Mobile Equipment

		2002		2001
Gross revenue	$	454.2	$	513.8
Segment earnings before other items	$	10.7	$	14.1
Segment earnings	$	10.5	$	17.2

Revenue decreased $59.6 million to $454.2 million in 2002 and earnings before other items decreased by $3.4 million to $10.7 million. The 2002 other items relate to the $0.7 million restructuring charge offset by the $0.5 million PNE provision recovery, while 2001 includes $3.1 million of the $6.1 million pension income amount. After other items, earnings were $10.5 million in 2002 compared to $17.2 million in 2001.

The following factors contributed to the results before other items:

- Revenues in western Canada decreased $25.3 million over last year due primarily to the $22.9 million impact of the relinquishment of a major construction product line in 2001, and due to strong price competition in the aftermarket parts and service business. These revenue declines were offset in part by an increase in mining equipment packages sold and an increase in the utilization of the material handling rental fleet compared to last year. Earnings, before allocation of head office costs, decreased by $2.0 million as the impact of lower revenues was only partly offset by increased margins on mining equipment packages and lower selling and administrative costs compared to last year.
- Revenues in eastern Canada decreased $24.2 million in 2002 due primarily to the negative volume impact resulting from a slowdown and resulting severe price competition experienced in the forestry sector, a drop-off in the contract portion of the crane and utility business, and small dollar value declines in the material handling and mining sectors. These declines were offset in part by an increase in sales generated from the Hitachi construction product line and increased material handling rental fleet utilization. Earnings, before allocation of head office costs, decreased $3.1 million compared to last year due to the reduced revenues, lower margins resulting from an increasingly competitive marketplace and the sale of used equipment inventory at lower margins compared to last year. These declines were offset in part by a $2.4 million reduction in selling and administrative expenses that included the elimination of $1.1 million of goodwill amortization.
- On October 31, 2002, the Company completed the sale of the PNE business to Modern Machinery Co., Inc., for net cash proceeds of approximately $17.0 million. Revenues from the PNE operation of $64.2 million in 2002 declined from $74.3 million in 2001. PNE's loss, before allocation of head office costs, was $0.3 million compared to $0.8 million the previous year.
- In addition, segment earnings increased by $1.3 million due to a reduction in the corporate head office cost allocation to this segment compared to last year.

"Several factors made 2002 exceptionally tough, particularly for operations in eastern Canada. However, we believe steps we have taken in response to difficult market conditions, together with steady growth from our aftermarket sales and service strategy, should yield better results in 2003."

James Burns, Senior Vice President, Mobile Equipment

The Mobile Equipment segment will continue to emphasize strategic initiatives to expand the higher margin aftermarket parts and service business and to focus on securing national coverage of quality product lines in major industry sectors through a low-cost and highly responsive logistics network. Key operational initiatives include the following:

- In the fourth quarter of 2002 the Company took steps to increase the profitability of the eastern Canada based Mobile Equipment operation. Workforce reductions and two branch closures will result in annual cost savings of approximately $1.8 million in 2003. A $0.7 million restructuring provision was taken in the fourth quarter to effect the cost reductions.
- In an effort to reduce working capital, a program was put in place in late 2002 to reduce used equipment inventory levels in the eastern Canada based Mobile Equipment operation. In addition, a centralized parts management process will also be introduced to reduce parts inventory levels.
- The western Canada based operation will continue to build on its presence in the mining market, with particular emphasis on oil sands projects. As the installed base of equipment in this sector continues to expand, parts and service revenues are expected to grow.
- Management will also continue to seek out additional complementary product lines that will enhance the Company's ability to meet customer needs and increase Mobile Equipment's profitability.

Industrial Components

	2002	2001
Gross revenue	$ 293.0	$ 340.3
Segment (loss) earnings before other items	$ (11.1)	$ 0.1
Segment (loss) earnings	$ (18.0)	$ (0.3)

Revenue decreased $47.3 million from $340.3 million in 2001 to $293.0 million in 2002. A segment loss before other items of $11.1 million in 2002 compared to earnings of $0.1 million in 2002. The 2002 other items includes the $5.5 million ERP computer system write-off and a $1.4 million restructuring provision, while the 2001 amount includes $2.0 million of the $6.1 million pension income amount offset by a restructuring provision of $2.4 million. This year-over-year decrease in earnings before other items was a result of the following principal factors:

- Revenues declined $15.2 million in the bearings business and $32.1 million in the fluid power business due to a general economic downturn in the industrial and forestry sectors, and a temporary loss of parts and service revenues due to ERP implementation disruptions in branches in Spencer and western Canada. The fluid power service revenues in western Canada were also negatively impacted by a slowdown in oil and gas exploration in Alberta.
- Segment earnings before other items decreased $11.2 million due to reduced volumes, a 1.6% reduction in margins in most regions as a result of strong price competition, a decrease in higher margin service revenues and lower volume rebates from manufacturers. These negative factors were offset in part by a $3.8 million reduction in selling and administrative expenses that reflected headcount reductions and branch closures and a $1.9 million reduction in goodwill amortization. Selling and administration expenses also included approximately $1.5 million of one-time ERP related consulting costs and a $0.9 million increase in the corporate head office cost allocation to this segment compared to last.
- Revenues from the Spencer operation, a U.S. based fluid power business, declined $17.3 million to $56.5 million in 2002 from $73.8 million in 2001. Spencer's loss, before allocation of head office costs, was $6.6 million compared to a loss of $4.2 million the previous year.

"We have taken aggressive steps to streamline our cost structure by reducing the head count in Industrial Components. This reduction will show substantial benefits in 2003. Our asset management has improved and we are focused on enhancing our purchasing to consolidate vendors and reduce purchase prices. Having our Canadian operations on one computer platform in 2003 will facilitate the integration of our three main product lines."

Gordon Duncan, Senior Vice President, Industrial Components; President, Kinecor Inc.

In response to the disappointing results of 2002, management took the following actions to return Industrial Components to profitability:

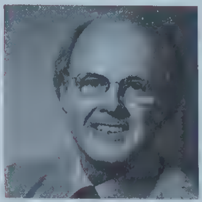
- Gordon Duncan was appointed Senior Vice President of Industrial Components on August 1, 2002. Mr. Duncan is a seasoned executive with extensive experience in the distribution sector.
- The workforce was reduced by approximately 10% during the fourth quarter of 2002. This workforce reduction of primarily administrative staff, along with cost savings from streamlining the operations, will yield annual cost savings of approximately $6.0 million. A $1.4 million restructuring provision was taken in the quarter to effect these cost reductions. In addition, given the significant loss in Spencer during the year, management is currently reviewing other restructuring options to further reduce its cost structure.
- In early 2003, the 10 Canadian Kinecor branches operating on the ERP computer system at year-end were successfully transitioned to the system currently installed in the bearings operation of Kinecor. The introduction of a common computing platform in Kinecor is expected to facilitate more efficient operations and result in improved customer service.
- In 2003, Industrial Components will begin to consolidate product lines carried in order to focus on a smaller number of high quality lines. This is expected to reduce overall inventory levels and costs of procurement and improve margins through increased freight efficiencies and more favourable purchasing terms with suppliers.
- Kinecor will continue to promote an integrated sales approach with its customers. In mid-2002, the division secured a number of large accounts to supply both bearings and fluid power products which will generate incremental annual revenue of approximately $6.0 million.

Diesel Engines

	2002	2001
Gross revenue	$ 166.9	$ 197.6
Segment earnings before other items	$ 15.9	$ 18.8
Segment earnings	$ 15.9	$ 19.7

Revenue decreased $30.7 million to $166.9 million in 2002 compared to $197.6 million in 2001. Earnings before other items decreased $2.9 million to $15.9 million in 2002. The 2001 other items include $0.9 million of the $6.1 million pension income amount. The following events affected revenues and earnings before other items:

- Results from the Company's Waterous operation in Alberta tracked lower than last year's record pace. Revenues declined $33.8 million as a result of decreased equipment spending in the oil and gas sector compared to last year.
- Revenues at the Company's diesel engine business in Quebec and the Maritimes, Detroit Diesel-Allison Canada East ("DD-ACE"), increased $3.1 million compared to 2001. An increase in parts and service volume, primarily with transit authorities, was offset in part by declines in equipment sales.
- Segment earnings before other items declined $2.9 million during the year due primarily to the reduced volumes in the Waterous operation.



"We always reach out for new revenue and income opportunities. To further these efforts, we will be opening a new branch in Moncton, N.B. As well, we have made improvements to our sales force management, which should further enhance effectiveness in DD-ACE."

Pierre Asselin, President, Detroit Diesel-Allison Canada East

The Diesel Engines segment is expected to continue to deliver solid results in 2003. Both Waterous and DD-ACE are considered among the best-run Detroit Diesel franchises in North America. Management will focus on continuing to grow this business through the following key initiatives:

- Both operating units were awarded aftermarket responsibilities for the Mercedes-Benz medium duty engines in late 2002. Parts and service sales are expected to grow as this engine line gains greater acceptance in the Canadian market.
- Waterous will be relocating its Calgary facility to a new 86,000 square foot building in March 2003. This new custom-built facility with additional service bays will allow Waterous to expand its service offering.

Liquidity and capital resources

The Company generated $61.4 million of cash flow before financing activities in 2002, compared to $33.8 million in 2001. The $27.6 million increase was due to a reduction in working capital and a decrease in capital asset additions, offset in part by lower cash flow from earnings compared to last year.

Cash provided by operating activities amounted to $69.9 million in 2002, with $9.6 million of this amount coming from operating earnings. The remaining $60.3 million was generated from changes in non-cash working capital before the impact of other items and changes in foreign currency translation rates. Significant components are as follows:

- Accounts receivable decreased by $22.6 million due to decreased sales activity, improved collections and the sale of the PNE business ($4.6 million).
- Inventory decreased by $61.1 million due primarily to the sale of the PNE business ($21.8 million) and overall reductions in all segments that were achieved through management's continued focus on reducing working capital.
- Prepaid expenses and other recoverable amounts increased $4.3 million due to progress payments made during the year for the construction of the new Waterous Calgary facility. In January 2003, Waterous sold the land and building under construction and leased it back for occupancy in March 2003.
- Accounts payable and accrued liabilities decreased $21.0 million during the year due to the sale of the PNE business ($6.0 million) and lower overall inventory levels.

The Company reinvested $8.5 million of the cash provided by operating activities. The most significant investing activity was $9.0 million in capital asset additions that included $5.9 million of ERP implementation costs.

Working capital, exclusive of funded debt and cash, was reduced $65.3 million from $241.3 million at December 31, 2001 to $176.0 million at December 31, 2002. The positive cash flow factors listed above and a decrease in the year-end foreign exchange rate compared to 2001 account for this achievement.

As a result of management's focus on reducing overall indebtedness, total funded debt outstanding, net of cash, at the end of 2002 was $114.4 million, a $61.4 million improvement from the previous year. The Company's debt to equity ratio improved from 0.86:1 at December 31, 2001 to 0.67:1 at December 31, 2002.

Net cash proceeds from the sale of PNE of approximately $17.0 million were used to reduce funded debt.

"For all of our past success, I believe Waterous Detroit Diesel-Allison can become even stronger. The new Calgary facility will allow Waterous to expand sales and service volumes and seize new opportunities. We intend to concentrate on what we do best and make the most of this new resource."

Ed Kobe, President, Waterous Detroit Diesel-Allison

As at December 31, 2002, the Company had the following secured credit facilities in place:

- The Company has recently amended the terms of its secured committed bank borrowing facility, which expires December 31, 2003. The $50 million commitment level, which was reduced from $180 million at December 31, 2001, is scheduled to decline to $40 million at March 31, 2003, to $25 million at June 30, 2003, to $15 million at September 30, 2003, and must be fully repaid by December 31, 2003. In addition, borrowing capacity under the facility is dependent upon the level of the Company's inventories on hand and the outstanding trade accounts receivable. The bank facility bears floating interest rates at a margin over Canadian dollar and U.S. dollar bankers' acceptances.
- Senior notes totalling U.S. $50 million, issued in 1997 having a fixed interest rate of 7.62% and a bullet maturity in 2007.
- Series I and Series II mortgage-style debentures issued in 1994 and 1996 respectively. The Series I debentures, maturing in 2009, bear a fixed interest rate of 10.69% and had an outstanding principal balance of $14.7 million at December 31, 2002. The Series II debentures, maturing in 2006, bear a fixed interest rate of 8.66% and had an outstanding principal balance of $9.3 million at December 31, 2002.

At December 31, 2002 the Company had utilized $29.0 million, including $4.0 million of letters of credit, of the $50 million bank facility. It is expected that cash generated from operating activities during 2003 will provide sufficient cash flow to meet the Company's short-term cash requirements. Management also expects to be able to enter into a new credit facility by the end of 2003 allowing for future growth requirements.

The Company follows a policy of limiting its exposure to fluctuations in short-term interest rates by maintaining a portion of its bank debt at fixed rates through the use of interest rate hedging instruments. The Company had a $25.0 million interest rate swap agreement outstanding at year-end. This agreement, which has a maturity date of March 2004, essentially fixes the Company's borrowing rate on this amount at 7.1% plus applicable stamping fees.

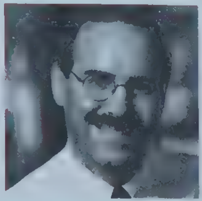
No dividends on common shares were paid in 2002 or 2001. The Board of Directors periodically reviews its position on this matter.

Changes in accounting policy

Goodwill and intangible assets

Effective January 1, 2002, the Company adopted the CICA recommendations related to goodwill and other intangible assets and, accordingly, discontinued amortization of all existing goodwill on a prospective basis. Under the new recommendations, goodwill is tested at least annually for impairment, or more frequently if certain indicators arise. The impairment test is based on the Company's evaluation of each reporting unit's book value compared to its fair value, including a valuation based on discounted future cash flows and market valuations of similar businesses. The recommendations require that any goodwill impairment at January 1, 2002 be recorded as a charge against opening retained earnings.

With the adoption of this statement, the Company ceased amortization of goodwill as of January 1, 2002. Goodwill amortization for the year ended December 31, 2001 was $3.2 million or $0.21 per share.



"While Wajax's level of profitability obviously fell below expectations, the company continued to make steady progress to reduce its overall indebtedness and fortify its financial position. At the beginning of 1999, Wajax's funded debt was $274.2 million. At the end of 2002, we succeeded in reducing debt to $114.4 million."

John Hamilton, Senior Vice President and Chief Financial Officer

The Company has completed the transitional impairment test of its unamortized goodwill asset and concluded that impairment existed in the goodwill associated with the Industrial Components segment. As a result, a goodwill writedown of $9.1 million was recorded directly to retained earnings, effective January 1, 2002. This amount represents the total goodwill associated with Spencer, the Industrial Component segment's U.S. based operations. The impairment test was based on the Company's evaluation of the operation's fair value, including a valuation of its discounted future cash flows and market valuations of similar businesses.

Stock-based compensation

Effective January 1, 2002, the Company adopted the new CICA recommendations related to stock-based compensation and other stock-based payments. This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange of goods and services provided by employees and non-employees. The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees with the addition of pro forma information.

During the year the Company issued 245,000 stock options. The company has not recorded any compensation cost on the grant of these stock options. There would be a reduction of net earnings by $43 thousand for the year and a nominal reduction in earnings per share information had the Company accounted for employee stock options under the fair value method.

Risks and uncertainties

As with most businesses, Wajax is subject to a number of marketplace and industry related risks and uncertainties which could have a material impact on operating results. The Company has effectively minimized many of these risks through diversification of core businesses and through the geographic diversity of its operations. There are, however, a number of risks that deserve particular attention.

Commodity prices

Over the years the Company has attempted to lessen its dependence on businesses whose revenue base is largely derived from customers that are highly reliant on favourable prices for a particular commodity in the resource sector. With its diverse operations across Canada and the western United States, management is of the opinion that the Company is not significantly exposed to the cyclical effects of any one commodity. However, one area that can have a significant effect on the Company's revenues and earnings is the petroleum sector of western Canada, where all three of the Company's core businesses have operations. Barring a substantial decline in petroleum prices, it is anticipated that the current level of oil related activity in Alberta should continue to benefit the Company's operations in 2003.

The Company's revenue base is spread across many marketplaces, as shown in the Results of Operations section above. It should be noted that although the Company is not highly dependent on the price of any one commodity, except petroleum, earnings of the Company can be adversely affected by downturns in any one or more of these markets.

Manufacturer and product access

The Company seeks to position itself with leading product lines in each of its regional markets and its success is dependent upon its continuing relations with the manufacturers it represents. In the Mobile Equipment, Diesel Engines and hydraulics and process pumps businesses, manufacturer relationships are generally governed through exclusive distribution agreements. Distribution agreements are for the most part open ended, but are cancellable within a notification period specified in the agreement. The Company enjoys good relationships with its major manufacturers and seeks to develop strong long-term partnerships.

There is currently a trend toward consolidation among industrial equipment and component manufacturers. As this consolidation unfolds it may impact on the products distributed by the Company, in either a favourable or unfavourable manner. The Company endeavours to align itself in long-term relationships with manufacturers that are committed to achieving competitive advantage and long-term market leadership in their targeted market segments. During 2001, the Company obtained national representation of the entire Hitachi construction product line across Canada and ceased to have the distribution rights to another competing construction product line in western Canada.

Foreign exchange

The Company's operating results are reported in Canadian dollars. While the majority of the Company's sales are in Canadian dollars, significant portions of its purchases are in U.S. dollars. The Company mitigates exchange rate risk by entering into short-term foreign currency forward contracts to fix the cost of imported inventory where appropriate. In addition, the Company will periodically institute price increases to offset the negative impact of foreign exchange rate increases on imported goods.

The Company also has one U.S. operating division. The exchange rate between the Canadian and U.S. dollars can vary significantly from year to year. There is a corresponding positive or negative impact on the Company's statement of earnings solely related to the translation impact year to year. In addition, there is a positive or negative exposure to the Company depending upon its net investment in this operation and the fluctuation of exchange rates. However, the balance sheet impact of exchange fluctuations has been offset by the Company's U.S. dollar borrowings and foreign currency forward contracts, which have been established as a hedge.

Strategic direction and outlook

In 2003, management will be committed to return Wajax to profitability and to further strengthen its balance sheet. At the same time, the Company intends to move forward with the strategic priorities introduced in 2000: growing aftermarket sales and service capabilities, strengthening product offerings and improving its distribution network.

Management expects to strengthen the financial performance of Industrial Components through cost reductions, and improved margins and volumes. In addition, the introduction of a common computing platform will facilitate more efficient operations and an improved level of customer service. The division also intends to reduce working capital through better inventory control and tighter management of outstanding receivables.

Prudent asset management, expense control and expansion of aftermarket capabilities will continue to be priorities for Mobile Equipment in 2003. Mobile Equipment also intends to grow market share and opportunistically expand its quality product lines in the construction, material handling, forestry and mining sectors.

The Company's Diesel Engines business is expected to continue to deliver solid results in 2003, while moving into its new state-of-the-art Calgary facility and expanding its product offering with the introduction of the Mercedes-Benz medium duty engine line.

While 2002 proved to be a very challenging year, management is confident that with the progress made to date, specifically in addressing the cost and asset base issues in Industrial Components and Mobile Equipment, 2003 will see a return to profitability. Other specific initiatives for 2003 to enhance margins and volumes and further reduce assets and debt are not dependent on substantial improvements in the economy. As a result, the anticipated earnings improvement for 2003 should provide a solid base for growth in subsequent years, particularly if economic activity gains momentum.

Forward-looking statements

This Management's Discussion and Analysis contains forward-looking information that involves assumptions and estimates that may not be realized and other risks and uncertainties. The inclusion of this information herein should not be regarded as a representation by the Company or any other person that the anticipated results will be achieved and investors are cautioned not to place undue reliance on such information.

Management's responsibility for financial reporting

The consolidated financial statements of Wajax Limited are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. Where appropriate, the information reflects management's judgments and estimates based on the available information. Management is also responsible for all other information in the Annual Report and for ensuring that this information is consistent with the consolidated financial statements.

The Company maintains a system of internal control designed to provide management with reasonable assurance as to the reliability of financial information and the safeguarding of the Company's assets. The Company also maintains an internal audit function, which reviews the system of internal control and its application.

The Audit Committee of the Board of Directors, consisting solely of outside directors, meets regularly during the year with management, internal auditors and the external auditors, to review their respective activities and the discharge of their responsibilities. Both the external and internal auditors have free and independent access to the Audit Committee to discuss the scope of their audits, the adequacy of the system of internal control and the adequacy of financial reporting. The Audit Committee reports its findings to the Board of Directors, which reviews and approves the consolidated financial statements.

The Company's external auditors, KPMG LLP, are responsible for auditing the consolidated financial statements and expressing an opinion thereon.

Paul D. Sobey
Chairman of the Board

John J. Hamilton
Senior Vice President and
Chief Financial Officer

Mississauga, Canada
February 14, 2003

Auditors' report

We have audited the consolidated balance sheets of Wajax Limited as at December 31, 2002 and 2001 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered accountants

Mississauga, Canada
February 14, 2003

Consolidated balance sheets

As at December 31 (dollars in thousands)	2002	2001
Assets		
Current		
Cash and cash equivalents	$ 13,557	$ 4,879
Accounts receivable	114,305	137,134
Inventories (Note 3)	184,050	245,253
Income taxes receivable	3,431	5,399
Future income taxes (Note 7)	7,845	9,569
Prepaid expenses and other recoverable amounts	7,797	3,575
	330,985	405,809
Non-current		
Rental equipment (Note 4)	9,581	11,325
Capital assets (Note 5)	37,355	64,226
Goodwill and other assets (Note 6)	56,555	67,939
Future income taxes (Note 7)	7,562	5,206
	111,053	148,696
	$ 442,038	$ 554,505
Liabilities and shareholders' equity		
Current		
Accounts payable and accrued liabilities	$ 141,435	$ 159,623
Current portion of long-term debt (Note 8)	29,580	4,235
	171,015	163,858
Non-current		
Future income taxes (Note 7)	2,680	9,373
Long-term debt (Note 8)	98,373	176,448
	101,053	185,821
Shareholders' equity		
Share capital (Note 10)	102,212	102,212
Retained earnings	67,758	102,614
	169,970	204,826
	$ 442,038	$ 554,505

On behalf of the Board:

Paul D. Sobey
Chairman of the Board

Robert P. Dexter
Director

Consolidated statements of earnings and retained earnings

For the years ended December 31 (dollars in thousands, except per share data)	2002	2001
Revenue	$ 908,789	$ 1,047,564
Cost of sales	705,831	812,442
Gross profit	202,958	235,122
Selling and administrative expenses	187,460	202,190
Earnings before other items, interest and income taxes	15,498	32,932
Other items (Note 16)	(32,686)	3,743
(Loss) earnings before interest and income taxes	(17,188)	36,675
Interest expense (Note 8)	14,989	18,160
(Loss) earnings before income taxes	(32,177)	18,515
Income tax (recovery) expense (Note 7)	(6,383)	9,813
Net (loss) earnings	(25,794)	8,702
Basic and diluted (loss) earnings per share (Note 12)	(1.64)	0.55
Weighted average number of common shares outstanding	15,696,960	15,696,960
Retained earnings, beginning of year	$ 102,614	$ 93,912
Adjustment to beginning retained earnings for goodwill impairment (Note 6)	(9,062)	–
Net (loss) earnings	(25,794)	8,702
Retained earnings, end of year	$ 67,758	$ 102,614

Consolidated statements of cash flows

For the years ended December 31 (dollars in thousands, except per share data)	2002	2001
Operating activities		
Net (loss) earnings	$ (25,794)	$ 8,702
Items not affecting cash flow:		
Amortization		
Rental equipment	2,314	3,039
Capital assets	8,999	8,116
Goodwill and deferred financing costs	951	4,036
Future income taxes	(7,519)	3,857
Pension expense	2,120	2,178
Other items (Note 16)	28,479	(3,743)
Cash flows before changes in non-cash working capital	9,550	26,185
Changes in non-cash working capital:		
Accounts receivable	22,609	29,667
Inventories	61,128	43,221
Prepaid expenses and other recoverable amounts	(4,300)	785
Accounts payable and accrued liabilities	(21,008)	(40,410)
Income taxes receivable	1,940	(7,989)
	60,369	25,274
Cash flows provided by operating activities	69,919	51,459
Investing activities		
Rental equipment additions	(1,808)	(3,927)
Rental equipment disposals	633	3,166
Capital asset additions	(8,980)	(18,137)
Proceeds on disposal of capital assets	1,629	1,279
	(8,526)	(17,619)
Cash flows before financing activities	61,393	33,840
Financing activities		
Increase in current bank indebtedness	25,000	–
Decrease in long-term debt	(74,492)	(47,955)
Repayment of debentures	(3,544)	(3,229)
	(53,036)	(51,184)
Cash flows before effect of foreign exchange	8,357	(17,344)
Effect of foreign exchange on translation adjustment	321	(356)
Net change in cash and cash equivalents	8,678	(17,700)
Cash and cash equivalents – beginning of year	4,879	22,579
Cash and cash equivalents – end of year	$ 13,557	$ 4,879

Cash flows provided by operating activities includes the following:

	2002	2001
Interest paid	$ 14,439	$ 16,222
Income taxes (received) paid	$ (1,029)	$ 13,790

Significant non-cash transaction:		
Rental equipment transferred to inventory	$ 605	$ 2,362

Notes to consolidated financial statements

December 31, 2002 and 2001 (tabulated in thousands of dollars)

1. Company profile

The Company's core distribution businesses are engaged in the sale and after-sales parts and service support of mobile equipment, industrial components and diesel engines, through a network of branches in Canada and the United States. The Company is a multi-line distributor and represents a number of leading worldwide manufacturers across its core businesses. Its customer base is diversified, spanning natural resources, construction, transportation, manufacturing, industrial processing and utilities.

2. Significant accounting policies

These Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in these Consolidated Financial Statements are as follows:

Principles of consolidation

These Consolidated Financial Statements include the accounts of Wajax Limited and its subsidiary companies, which are all wholly owned. Intercompany balances and transactions are eliminated on consolidation.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition

Revenue is recognized as it is earned in accordance with the following:

- Revenue from the sale of equipment and parts is recorded at the time goods are shipped to customers or when all contracted-upon conditions have been fulfilled.
- Revenue from equipment leases and rentals is recognized over the term of the lease or rental.
- Revenue from the sale or transfer of internally manufactured or assembled products is recorded when goods are shipped.
- Revenue from the offering of engineering and technical services to customers is recognized upon performance of contracted-upon services with customers.

Provision is made for expected returns, collection losses and warranty costs based on past performance, and for estimated costs to fulfill contractual obligations and other sales related contingencies.

Derivative financial instruments

The Company uses derivative financial instruments in the management of its foreign currency and interest rate exposures. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

The Company enters into hedges of its foreign currency exposures on a portion of its foreign currency denominated long-term debt by entering into offsetting forward exchange contracts, when it is deemed appropriate. The Company also purchases foreign exchange forward contracts to fix the cost of inbound inventory and the related accounts payable and to hedge anticipated foreign currency denominated sales to customers and the related accounts receivable.

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge foreign currency long-term debt are offset against the respective translation losses and gains recognized on the underlying foreign currency long-term debt with any difference expensed currently. The forward premium or discount on forward foreign exchange contracts used to hedge foreign currency long-term debt is amortized as an adjustment of interest expense over the term of the forward contract.

The Company also enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its short-term and long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based.

The Company designates its interest rate hedge agreements as hedges of the underlying debt. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current, or non-current, assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

United States operations

The Company's U.S. subsidiaries are classified as self-sustaining foreign operations. Revenues and expenses are translated at average exchange rates prevailing during the year. The assets and liabilities of the U.S. operations are translated at the exchange rate in effect at the balance sheet date, and any translation gains or losses are deferred in shareholders' equity. The exchange gains or losses that arise on the translation of the portion of the U.S. dollar-denominated debt that hedges the Company's investment in U.S. operations are also deferred in shareholders' equity.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments purchased three months or less from maturity and are stated at cost, which approximates market value.

Foreign currency transactions and balances

Foreign currency transactions are translated into domestic currency at exchange rates prevailing at the time the transactions occurred. Monetary assets and liabilities denominated in foreign currencies, such as cash, accounts receivable and accounts payable, are translated into domestic currency at the rate of exchange in effect at the balance sheet date. Exchange gains and losses other than those arising from the self-sustaining foreign operations are included in the statement of earnings.

Inventories

Inventories are valued at the lower of cost and estimated net realizable value.

Rental equipment

Rental equipment assets are recorded at cost and amortized over their estimated useful lives, using the declining balance method at a rate of 20%.

Capital assets and amortization

Capital assets are recorded at cost and amortized over their estimated useful lives based on the following methods and annual rates:

Asset	Method	Rate
Buildings	declining balance	4% – 10%
Equipment and vehicles	declining balance	20% – 30%
Information systems	straight-line	3 – 7 years
Furniture and fixtures	declining balance	20%
Leasehold improvements	straight-line over the expected terms of the leases	

Information systems costs

Costs directly attributable to the enterprise resource planning ("ERP") computer system were capitalized and expected to be amortized over the estimated life of three to seven years. Full amortization of the system commenced when the system was implemented more widely in early 2002. During the third and fourth quarter of 2002, charges of $25.5 million were recorded against the asset (see Note 16). As at December 31, 2002 ERP computer system costs were included in capital assets in the amount of $2.9 million (December 31, 2001 – $25.0 million).

Goodwill and other assets

Effective January 1, 2002, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") recommendations related to goodwill and other intangible assets and, accordingly, discontinued amortization of all existing goodwill on a prospective basis. Previously, the Company amortized goodwill over the expected periods of benefit, up to a maximum of twenty-five years. Under the new recommendations, goodwill is tested at least annually for impairment, or more frequently if certain indicators arise. The impairment test is based on the Company's evaluation of each reporting unit's book value compared to its fair value, including a valuation based on discounted future cash flows and market valuations of similar businesses. The recommendations require that any goodwill impairment at January 1, 2002 be recorded as a charge against opening retained earnings (see Note 6).

With the adoption of this recommendation, the Company ceased amortization of goodwill as of January 1, 2002. The following table presents the effect on fiscal 2001 had the Company retroactively adopted the change in accounting policy of not amortizing goodwill:

	2002	2001
Reported net (loss) income	$ (25,794)	$ 8,702
Add back: Goodwill amortization	–	3,182
Adjusted net (loss) income	$ (25,794)	$ 11,884
Basic earnings per share		
Reported net (loss) income	$ (1.64)	$ 0.55
Add back: Goodwill amortization	–	0.21
Adjusted net (loss) income	$ (1.64)	$ 0.76
Diluted earnings per share		
Reported net (loss) income	$ (1.64)	$ 0.55
Add back: Goodwill amortization	–	0.21
Adjusted net (loss) income	$ (1.64)	$ 0.76

Deferred financing costs are amortized over the terms of the respective issues. For accounting policies related to the deferred pension asset, refer to Note 15.

Stock-based compensation plans

Effective January 1, 2002, the Company adopted the new CICA recommendations related to stock-based compensation and other stock-based payments. This section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange of goods and services provided by employees and non-employees. The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees with the addition of pro forma information.

The Company has four stock-based compensation plans as described in Note 11. No compensation expense is recognized for the stock option plan. Compensation expense is recorded under the two share unit plans and the stock appreciation rights plan. Any consideration paid by employees, officers or directors on the exercise of stock options is credited to share capital. If stock or stock options are repurchased from employees, officers or directors, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings.

Earnings per share

The treasury stock method is used to calculate diluted earnings per share and assumes any share option proceeds would be used to purchase common shares at the average market price during the period.

Pensions

The Company has a defined contribution pension plan for most of its employees. The cost of the defined contribution plan is recognized based on the contributions required to be made each period.

The Company also has defined benefit plans covering some of its employees. The benefits are based on years of service and the employee's earnings. Defined benefit plan obligations are accrued as the employees render the services necessary to earn the pension benefits. The Company has adopted the following policies:

- The cost of pension benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service for defined benefit plans with benefits based on final average earnings and the unit credit method for other defined benefit plans and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.
- For purposes of calculating expected return on plan assets, those assets are valued at fair value.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of the plan assets is amortized over the average remaining service life of active employees.

The Company does not sponsor a post-employment benefit plan other than the pension plans.

Income taxes

The Company uses the asset and liability method of accounting for the tax effect of temporary differences between the carrying amount and the tax basis of the Company's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Company's income taxes payable for the year or a later period.

Future income taxes are recorded at the income tax rates that are expected to apply when the future tax liability is settled or the future income tax asset is realized. Valuation allowances are established when necessary to reduce future income tax assets to the amount expected to be realized. Income tax expense consists of the income taxes payable for the year and the change during the year in future income tax assets and liabilities.

Comparative financial statements

Certain comparative figures have been reclassified to conform to the 2002 presentation.

3. Inventories

	2002	2001
Equipment	$ 84,104	$ 132,439
Parts	94,769	106,240
Work-in-process	5,177	6,574
Total inventories	$ 184,050	$ 245,253

All amounts shown are net of applicable reserves.

4. Rental equipment

		Cost		Accumulated Amortization		Net Book Value
December 31, 2002	$	18,979	$	9,398	$	9,581
December 31, 2001	$	20,501	$	9,176	$	11,325

5. Capital assets

		Cost		Accumulated Amortization		Net Book Value
Land and buildings	$	27,301	$	8,105	$	19,196
Leasehold improvements		10,279		6,985		3,294
Equipment and vehicles		25,072		18,506		6,566
Information systems		17,605		12,546		5,059
Furniture and fixtures		11,829		8,589		3,240
December 31, 2002	$	92,086	$	54,731	$	37,355
Land and buildings	$	28,967	$	7,891	$	21,076
Leasehold improvements		10,405		6,805		3,600
Equipment and vehicles		22,731		16,816		5,915
Information systems		40,375		11,995		28,380
Furniture and fixtures		15,751		10,496		5,255
December 31, 2001	$	118,229	$	54,003	$	64,226

6. Goodwill and other assets

		2002		2001
Goodwill	$	51,345	$	60,472
Deferred financing costs, net of accumulated amortization of $4,156 (2001 – $3,376)		1,693		1,829
Deferred pension asset (See Note 15)		3,517		5,638
Total goodwill and other assets	$	56,555	$	67,939

During the year, the Company performed an impairment test of its unamortized goodwill asset and concluded that impairment existed in the goodwill associated with the Industrial Components segment. As a result, a goodwill writedown of $9,062 was recorded directly to retained earnings, effective January 1, 2002. This amount represents the total goodwill associated with the Industrial Component segment's U.S. based operations (Spencer Industries, Inc.). The impairment test was based on the Company's evaluation of the operation's fair value, including a valuation of its discounted future cash flows and market valuations of similar businesses.

7. Income taxes

Future income taxes are comprised of the following amounts:

	2002	2001
Current future income tax assets	$ 7,845	$ 9,569
Non-current future income tax assets	7,562	5,206
Non-current future income tax liabilities	(2,680)	(9,373)
Net future income tax asset	$ 12,727	$ 5,402

The significant components of the net future income tax asset of $12,727 (2001 – $5,402) are as follows:

	2002	2001
Non-deductible reserves	$ 6,885	$ 10,614
Capital assets	1,081	(7,435)
Deductible goodwill	(1,418)	1,399
Deductible deferred acquisition costs	(342)	(406)
Loss carry forwards	19,953	9,547
Total gross future tax assets	26,159	13,719
Less valuation allowance related to U.S. operations	(13,432)	(8,317)
Net future income tax asset	$ 12,727	$ 5,402

Significant components of the provision for income taxes are as follows:

	2002	2001
Current	$ 942	$ 6,148
Future	(7,325)	3,665
Income tax (recovery) expense	$ (6,383)	$ 9,813

The provision for income taxes on earnings is comprised as follows:

	2002	2001
Combined statutory income tax rate	38.7%	39.3%
Income tax expense prior to the following:	$ (12,452)	$ 7,276
Valuation allowance related to U.S. operations	5,114	636
Non-deductible goodwill	–	1,103
Tax on large corporations	615	674
Other	340	124
Income tax (recovery) expense	$ (6,383)	$ 9,813

At December 31, 2002, the Company had accumulated Canadian net operating losses carried forward for tax purposes of approximately $12,000, which expire in 2009. The Company also has accumulated U.S. net operating losses carried forward for tax purposes of approximately $45,000, which expire through 2022.

8. Long-term debt

	2002	2001
U.S. $50.0 million senior notes, 7.62%, maturing December 18, 2007	$ 78,216	$ 78,619
Debentures		
10.69%, Series I, maturing August 24, 2009	14,736	16,095
8.66%, Series II, maturing June 13, 2006	9,308	11,493
Revolving term bank facility, repayable December 31, 2003		
Canadian dollar loan	25,000	71,500
U.S. dollar loan	–	1,593
Mortgage payable, 7.25%, due June 30, 2003	693	1,383
	127,953	180,683
Less current portion	29,580	4,235
	$ 98,373	$ 176,448

The U.S. $50.0 million senior notes, the Series I and Series II debentures, and the revolving term bank facility are secured under a general security agreement. Interest on the U.S. $50.0 million senior notes is payable semi-annually and the principal is repayable on maturity in 2007. Blended principal and interest payments on the Series I and Series II debentures are payable semi-annually. Borrowings under the $50 million revolving term facility are at floating rates of interest at a margin over Canadian dollar bankers' acceptance yields and U.S. dollar LIBOR rates. Committed amounts under the revolving term facility decline from $50.0 million at December 31, 2002 to $40.0 million at March 31, 2003, $25.0 million at June 30, 2003, $15.0 million at September 30, 2003 and must be fully paid by December 31, 2003. The mortgage is repayable in a lump sum payment of principal and interest totalling $742 on June 30, 2003. In accordance with the Company's policy on translation of U.S. operations, a portion of the U.S. $50.0 million senior notes has been designated as a hedge of the investment in U.S. operations (Note 2).

Interest on long-term debt amounted to $15.0 million (2001 – $18.1 million).

Annual principal repayments for the next five years as at December 31, 2002 are:

2003	$ 29,580
2004	4,267
2005	4,683
2006	12,875
2007	80,502

9. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, long-term debt, interest rate swaps and foreign currency forward contracts. The carrying values reported in the balance sheet for financial instruments are not significantly different from their fair values, except as noted below. The Company invests only in high quality cash equivalents and short-term investments.

Long-term debt

The fair value of the Company's long-term debt is estimated based on discounted cash flows using current interest rates for similar financial instruments subject to similar risks and maturities. As at December 31, 2002, the carrying value of long-term debt exceeded the estimated fair value by approximately $4.5 million. The fair value is not necessarily indicative of the amount that the Company might incur in an actual market transaction.

Interest risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its temporary investments and current bank indebtedness.

The Company has entered into interest rate swap agreements to manage its interest rate exposure on floating rate debt. As at December 31, 2002 the Company had $25.0 million (2001 – $65.5 million) of floating rate bank debt swapped against fixed rate debt with an interest rate of 7.10% (2001 – 7.00%), plus applicable stamping fees. This agreement expires on March 29, 2004. The differential the Company would pay to hypothetically terminate or exchange the swap agreement in the prevailing market conditions is estimated at $1.3 million.

Foreign currency forward contracts

The Company enters into short-term foreign currency forward contracts to fix the cost of inbound inventory and to hedge foreign currency-denominated sales to customers as part of its normal course of business. As at December 31, 2002 the Company had contracts outstanding to buy $3.5 million U.S. dollars and 0.3 million Euro and to sell $0.9 million U.S. dollars (December 31, 2001 – buy $0.3 million U.S. dollars and 0.4 million Euro).

In addition the Company has entered into a short-term foreign currency forward contract to buy $18.9 million U.S. dollars to offset the effect of foreign exchange changes on the portion of its U.S. dollar-denominated senior notes that does not form a part of the hedge against the Company's investment in U.S. operations.

There is no material difference between the face value of the foreign currency forward contracts and their value as calculated by reference to prevailing currency exchange rates.

Credit risk

The Company is exposed to credit risk with respect to its accounts receivable. However, this is minimized by the Company's large customer base which covers most business sectors across Canada and the western United States. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Company maintains provisions for possible credit losses, and any such losses to date have been within management's expectations.

10. Share capital

Issued and fully paid common shares:

	Number of Shares	Amount
December 31, 2002 and December 31, 2001	15,696,960	$ 102,212

The Company is authorized to issue an unlimited number of preferred shares without nominal or par value and issuable in series, and an unlimited number of common shares without nominal or par value.

11. Stock-based compensation plans

The Company has four stock-based compensation plans: a stock option plan, two phantom stock plans and a stock appreciation rights plan.

a) Stock option plan

The Company has a plan in place to grant options to employees and officers to purchase common shares of the Company. The aggregate number of common share options that may be issued by the Company is limited to 1,400,000. All options expire within 10 years and, unless otherwise determined by the Board of Directors, 20% of the options issued prior to 2001 vest at the end of each of the first 5 years following the date on which the options were granted. The vesting of all options issued in 2001 and 2002 is fully contingent on the Company meeting performance targets specified by the Board of Directors.

The following table summarizes the status of the stock option plan as at December 31, 2002 and 2001 and the changes during the years then ended:

	2002		2001	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	840,000	$ 7.85	574,400	$ 11.07
Granted	245,000	4.41	416,000	3.80
Exercised	–	–	–	–
Forfeited and expired	(211,000)	5.12	(150,400)	8.93
Outstanding at end of year	874,000	$ 7.55	840,000	$ 7.85

The following table summarizes information about stock options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$3.80 to $5.10	502,000	6.89	4.10	–	–
$6.70 to $9.25	182,000	4.70	8.19	146,800	8.37
$11.50 to $17.25	190,000	1.35	16.04	190,000	16.04
Outstanding at end of year	874,000	5.23	7.55	336,800	12.70

The Company has not recorded any compensation cost on the grant of stock options in 2002. There would be a reduction of net earnings of $43 thousand for 2002 and a nominal reduction of earnings per share if the Company had accounted for employee stock options issued after December 31, 2001 under the fair value method.

b) Deferred Share Unit plan

Under this plan, non-employee directors of the Company receive a portion of their annual retainers in the form of units of the plan, and the Company records a liability. The number of units issued is based upon the market value of the Company's common shares at each allocation date during the year. After retirement, qualifying directors receive a cash payment equal to the market value of their accumulated Deferred Share Units. Amounts included in the Consolidated Statements of Earnings for this plan were $37 thousand in the year ended December 31, 2002. No units were issued under this plan prior to January 1, 2002.

c) Performance restricted share unit plan

Under this plan, the Company's President is entitled to receive performance-based compensation in the form of units of the plan, and the Company records a liability. The number of units issued will be based on the performance of the Company's common share price through December 31, 2005, at which point any issued units will be redeemed by the Company for a cash payment equal to the market value of the issued units. Amounts included in the Consolidated Statements of Earnings for this plan were $34 thousand in the year ended December 31, 2002. No units were issued under this plan prior to January 1, 2002.

d) Stock appreciation rights plan

The Company has a stock appreciation rights ("SAR") plan in place to grant SARs to key employees and officers. These SARs vest over a three-year period and, once vested, can be redeemed by the holder for a cash payment equal to the excess of the Company's share price over the strike price of each SAR. No amount was included in the Consolidated Statements of Earnings for this plan for the years ended December 31, 2001 or 2002. In addition, no charges were recorded to opening retained earnings for the cumulative amount relating to vested SARs outstanding at the beginning of the fiscal year. All SARs outstanding as at December 31, 2002 are to expire on February 20, 2003.

12. Earnings per share

The following table sets forth the computation of basic and diluted earnings (loss) per share (in thousands of dollars except per share data):

	2002	2001
Numerator for basic and diluted earnings per share – net (loss) income	$ (25,794)	$ 8,702
Denominator for basic earnings per share – weighted average shares	15,696,960	15,696,960
Denominator for diluted earnings per share:		
– weighted average shares	15,696,960	15,696,960
– effect of dilutive employee stock options	–	101,445
Denominator for diluted earnings per share	15,696,960	15,798,405
Basic (loss) earnings per share	$ (1.64)	$ 0.55
Diluted (loss) earnings per share	$ (1.64)	$ 0.55

Excluded from the above calculations are 874,000 (2001 – 424,400) outstanding stock options with an exercise price range of $3.80–$17.25 (2001 – $6.70–$17.25) as they are currently anti-dilutive. These securities could potentially dilute earnings per share in future periods.

13. Segmented information

The Company operates through a network of branches in Canada and the United States. The Company's three core businesses are: i) the distribution, modification and servicing of mobile equipment; ii) the distribution, servicing and assembly of industrial components; and iii) the distribution and servicing of diesel engines.

Industry segments

2002	Mobile Equipment	Industrial Components	Diesel Engines	Segment Eliminations and Unallocated Amounts	Total
Gross revenue	$ 454,204	$ 292,968	$ 166,863	$ (5,246)	$ 908,789
Segment earnings (loss) before other items, interest and income taxes	$ 10,691	$ (11,138)	$ 15,946	$ (1)	$ 15,498
Other items	(185)	(6,873)	–	(25,628)	(32,686)
Segment earnings (loss) before interest and income taxes	$ 10,506	$ (18,011)	$ 15,946	$ (25,629)	$ (17,188)
Segment assets	$ 188,082	$ 145,006	$ 68,928	$ –	$ 402,016
Corporate and other assets					40,022
Total assets					$ 442,038
Asset additions					
Rental equipment	$ 1,758	$ –	$ 50	$ –	$ 1,808
Capital assets	644	1,717	821	5,798	8,980
	$ 2,402	$ 1,717	$ 871	$ 5,798	$ 10,788
Asset amortization					
Rental equipment	$ 2,249	$ –	$ 65	$ –	$ 2,314
Capital assets	2,109	3,843	1,229	1,818	8,999
Goodwill and other	–	–	–	950	950
	$ 4,358	$ 3,843	$ 1,294	$ 2,768	$ 12,263

2001	Mobile Equipment	Industrial Components	Diesel Engines	Segment Eliminations and Unallocated Amounts	Total
Gross revenue	$ 513,778	$ 340,284	$ 197,598	$ (4,096)	$ 1,047,564
Segment earnings before other items, interest and income taxes	$ 14,076	$ 103	$ 18,753	$ –	$ 32,932
Other items	3,162	(359)	940	–	3,743
Segment earnings (loss) before interest and income taxes	$ 17,238	$ (256)	$ 19,693	$ –	$ 36,675
Segment assets	$ 259,467	$ 161,264	$ 75,766	$ –	$ 496,497
Corporate and other assets					58,008
Total assets					$ 554,505
Asset additions					
Rental equipment	$ 3,927	$ –	$ –	$ –	$ 3,927
Capital assets	1,792	2,215	2,979	11,151	18,137
	$ 5,719	$ 2,215	$ 2,979	$ 11,151	$ 22,064
Asset amortization					
Rental equipment	$ 2,848	$ –	$ 191	$ –	$ 3,039
Capital assets	2,595	3,538	1,362	621	8,116
Goodwill and other	1,112	1,889	76	959	4,036
	$ 6,555	$ 5,427	$ 1,629	$ 1,580	$ 15,191

Interest expense and income taxes are not allocated to business segments. All other corporate expenses are allocated based on asset levels. Segment assets do not include assets associated with the corporate office, financing or income taxes. Additions to corporate assets, and amortization of these assets, are included in segment eliminations.

Geographic segments

2002	Canada	United States	Total
Gross revenue	$ 783,746	$ 125,043	$ 908,789
Location of assets:			
Rental equipment	$ 9,581	$ –	$ 9,581
Capital assets	34,623	2,732	37,355
Goodwill	51,345	–	51,345

2001	Canada	United States	Total
Gross revenue	$ 899,549	$ 148,015	$ 1,047,564
Location of assets:			
Rental equipment	$ 11,325	$ –	$ 11,325
Capital assets	59,715	4,511	64,226
Goodwill	51,338	9,134	60,472

14. Commitments and contingencies

Operating leases

Total long-term lease commitments amount to $84.9 million over the remaining life of the leases. The annual payments required under the lease agreements over the next five years are as follows:

2003	$ 16,323
2004	14,353
2005	11,824
2006	9,276
2007	6,156

Guaranteed residual value and buy-back contracts

The Company has guaranteed the resale value of equipment sold ("guaranteed residual value contracts") or agreed to buy back equipment from customers at the option of the customer for a specified price at future dates ("buy-back contracts"). These contracts are subject to certain conditions being met by the customer. As at December 31, 2002, the Company had guaranteed $3.5 million (2001 – $3.8 million) for guaranteed residual value contracts and provided the option to customers for buy-back contracts in the amount of $0.6 million (2001 – $0.8 million), with commitments arising between 2003 and 2009. The commitments made by the Company in these contracts reflect the estimated future value of the equipment, based on the judgment and experience of management. Management does not anticipate that any material financial exposure is likely to result from such commitments.

Contingencies

In the ordinary course of business, the Company may be contingently liable for litigation in varying amounts and for which provisions have been made in these Consolidated Financial Statements as appropriate. It is not possible to determine the amounts that may ultimately be assessed against the Company, but management believes that any such amounts would not have a material impact on the business or financial position of the Company.

15. Employees' pension plans

The Company sponsors three pension plans: the Employees' Plan which, for all members not covered under a collective bargaining agreement, was converted to a defined contribution plan ("DC") effective January 1, 2001, and two defined benefit plans: the Executive Plan and the Supplemental Executive Retirement Plan. On January 1, 2002, the Company converted part of the remaining defined benefit membership of the Employees' Plan to the defined contribution plan. The curtailment impact of this DC conversion was recognized in the year 2001 net benefit plan income. In 2001, the Company transferred funds representing members' accrued benefit obligations under the January 1, 2001 DC conversion into individual members' DC accounts and in 2002 made a similar transfer for the January 1, 2002 conversion. The settlement impacts of these transactions are recognized in the year that the transfer occurs.

The Company uses actuarial reports prepared by independent actuaries for funding and accounting purposes. The following significant actuarial assumptions were employed to determine the periodic pension income and the accrued benefit obligations:

	2002	2001
Expected long-term rate of return on plan assets	5.0%–7.25%	6.0%–7.25%
Discount rate	6.5%	6.5%
Rate of compensation increase	4.0%–5.0%	4.0%–5.0%

The Company's net plan income is as follows:

	2002	2001
Current service cost – defined benefit plans	$ 429	$ 400
Current service cost – defined contribution plans	2,900	2,802
Interest cost	533	2,379
Expected return on plan assets	(782)	(2,836)
Amortization	(123)	(1,240)
DC conversion – curtailment impact	–	30
Transfer to members' accounts – settlement impact	(709)	(6,053)
Net plan expense (income)	$ 2,248	$ (4,518)

Information about the Company's defined benefit pension plans, in aggregate, is as follows:

	2002	2001
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	$ 9,436	$ 42,698
Current service cost	429	400
Participant contributions	192	205
Interest cost	533	2,379
Remeasurement prior to settlement	(337)	(2,772)
Transfer to plan members	(1,693)	(31,366)
Plan amendment – retiree benefit enhancement	66	–
Benefits paid	(2,019)	(2,108)
Accrued benefit obligation, end of year	$ 6,607	$ 9,436
Plan assets		
Fair value of plan assets, beginning of year	$ 16,563	$ 51,358
Actual return on plan assets	444	1,223
Participant contributions	192	205
Employer contributions	(2,943)	(2,749)
Transfer to plan members	–	(31,366)
Benefits paid	(3,712)	(2,108)
Fair value of plan assets, end of year	$ 10,544	$ 16,563

	2002	2001
Plan assets, end of year	$ 10,544	$ 16,563
Accrued benefit obligation, end of year	$ (6,607)	$ (9,436)
Funded status – plan surplus	3,937	7,127
Unamortized net actuarial losses	836	559
Unamortized past service costs	24	27
Unamortized net transitional asset	(1,280)	(2,075)
Deferred pension asset	$ 3,517	$ 5,638

Included in the aforementioned accrued benefit obligations and fair value of plan assets at year-end are the following amounts in respect of the Supplemental Executive Retirement Plan that is not funded:

	2002	2001
Accrued benefit obligation	$ 1,751	$ 1,504
Fair value of plan assets	–	–
Fund status – plan deficit	$ 1,751	$ 1,504

16. Other items

During the year the Company decided to abandon the implementation of the ERP computer system. A $25.5 million charge was recorded relating to the decision not to deploy the ERP computer system into the Company's Mobile Equipment and Diesel Engines segments and to discontinue its implementation within the Industrial Components segment. As a result, the carrying value of the ERP computer system at December 31, 2002 is $2.9 million. Of the remaining costs, $0.7 million relate to operations that will continue to use the system and will be amortized over the estimated period of use, ending in 2003.

The Company also recorded a charge, representing a provision for restructuring costs. This provision includes costs for streamlining the operations of the Industrial Components and Mobile Equipment segments, as well as other severance costs. These charges were offset by a small recovery of the provision taken in 2000 for the disposal of the Company's Pacific North Equipment operations, which closed on October 31, 2002.

The Company made make-whole payments totalling $4.2 million to unwind $40.5 million of interest rate swaps throughout fiscal 2002. Since these swaps were terminated with the underlying debt being extinguished, the make-whole payments were charged to income.

In 2001, the Company recorded pension income, which reflected the positive settlement impact from revising the benefits payable under the Company-sponsored pension plan from a defined benefit basis to a defined contribution basis. In addition, the Company recorded a charge in 2001 representing a provision for restructuring of the Industrial Components segment and the information technology function related to the corporate office and Industrial Components. This provision included costs for severances as a result of streamlining the management structure, closing a number of underperforming branches and integrating the IT functions of the corporate office with the operating units.

The impact of the above noted charges are as follows:

2002	Pre-tax	Tax	After Tax
ERP computer system	$ 25,436	$ (9,717)	$ 15,719
Net restructuring costs and severances	3,043	(1,389)	1,654
Swap unwind costs	4,207	(1,628)	2,579
Total other items	$ 32,686	$ (12,734)	$ 19,952

2001	Pre-tax	Tax	After Tax
Pension income	$ (6,053)	$ 2,550	$ (3,503)
Net restructuring costs and severances	2,310	(934)	1,376
Total other items	$ (3,743)	$ 1,616	$ (2,127)

Summary of quarterly data – unaudited

	2002				2001			
(Dollars in millions, except per share data)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	$214.2	$264.8	$206.6	$223.2	$271.4	$277.2	$250.4	$248.6
Net (loss) earnings	(1.0)	1.0	(17.8)	(8.0)	1.3	3.0	1.7	2.8
Earnings (loss) per share	$ (0.07)	$ 0.07	$ (1.13)	$ (0.51)	$ 0.08	$ 0.19	$ 0.11	$ 0.17

Eleven-year summary

For the years ended December 31 (dollars in millions, except per share data)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Operating results											
Revenue	$ 908.8	$1,047.6	$1,147.5	$1,038.4	$ 992.2	$ 947.4	$ 675.1	$ 547.6	$ 404.5	$ 287.4	$ 247.9
Net (loss) earnings	(25.8)	8.7	(9.7)	4.0	9.5	21.0	17.0	12.0	5.1	1.1	0.6
Interest expense	15.0	18.2	20.3	20.2	17.9	13.4	9.7	8.2	5.7	5.6	5.6
Cash flows before changes in non-cash working capital	9.5	26.2	28.2	28.3	20.2	32.5	27.6	21.8	14.0	7.1	7.7
Capital expenditures – net	7.4	16.9	16.3	12.7	10.7	4.8	4.4	1.2	1.3	2.9	0.9
Rental equipment expenditures – net	1.2	0.8	3.3	2.8	13.6	9.0	5.6	6.7	2.5	3.1	(3.9)
Amortization	12.3	15.2	16.2	21.0	16.9	13.3	10.0	8.6	5.3	5.0	6.1
Per common share											
Net (loss) earnings	$ (1.64)	$ 0.55	$ (0.62)	$ 0.25	$ 0.60	$ 1.39	$ 1.22	$ 1.02	$ 0.46	$ 0.13	$ 0.07
Cash flows before changes in non-cash working capital	0.61	1.53	1.80	1.81	1.29	2.15	1.98	1.86	1.26	0.83	0.89
Dividends paid	–	–	–	–	–	–	–	–	–	–	–
Equity	10.83	13.05	12.49	13.11	12.86	12.27	10.32	9.12	8.04	7.60	7.53
Financial position											
Working capital	$ 176.0	$ 241.6	$ 264.6	$ 278.9	$ 292.0	$ 236.8	$ 188.4	$ 134.0	$ 108.0	$ 57.4	$ 63.4
Rental equipment	9.6	11.3	14.5	28.2	33.7	23.5	19.3	14.1	9.8	8.5	7.1
Capital assets – net	37.4	64.2	55.1	46.5	42.7	34.1	31.6	27.8	24.9	26.0	20.1
Long-term debt	98.4	176.4	223.2	226.0	250.9	167.8	144.5	68.6	60.8	32.1	34.1
Shareholders' equity	170.0	204.8	196.1	205.8	201.8	191.7	145.1	124.3	90.8	85.7	64.6
Total assets	442.0	554.5	623.2	617.5	644.4	527.3	405.0	303.2	241.1	220.3	163.9
Other information											
Number of employees	2,308	2,601	2,804	2,692	2,717	2,341	1,975	1,621	1,419	1,154	1,050
Common shares outstanding (000s)	15,697	15,697	15,697	15,697	15,697	15,632	14,061	13,631	11,287	8,628	8,573
Price range of common shares											
High	$ 7.25	$ 6.00	$ 5.75	$ 9.00	$ 22.00	$ 19.75	$ 15.00	$ 11.20	$ 9.88	$ 9.75	$ 7.75
Low	3.55	4.00	3.25	4.60	7.65	13.50	10.63	7.88	7.75	5.50	5.50

Corporate Officers and Board of Directors

Corporate Officers

Paul D. Sobey
Chairman

Neil D. Manning
President and
Chief Executive Officer

John J. Hamilton
Senior Vice President and
Chief Financial Officer

James M. Burns
Senior Vice President
Mobile Equipment

Gordon A. Duncan
Senior Vice President
Industrial Components

Linda Corbett
Treasurer

Christopher J. Desjardins
General Counsel and Secretary

Directors

Paul D. Sobey[3]
Chairman
Wajax Limited
President and
Chief Executive Officer
Empire Company Limited

Mark L. Cullen[1,2]
Corporate Director

Robert P. Dexter, Q.C.[1]
Chairman and
Chief Executive Officer
Maritime Travel Inc.

Ivan E.H. Duvar[2,3]
Corporate Director

Paul E. Gagné[2,3]
Corporate Director

Neil D. Manning[2]
President and
Chief Executive Officer
Wajax Limited

Valerie A.A. Nielsen, P.Geoph[1]
Corporate Director

Frank C. Sobey[1]
Chairman
Atlantic Shopping
Centres Limited

Donald J. Taylor[1,3]
Chairman
Enbridge Inc.

Honourary Directors

H. Gordon MacNeill
Peter Paul Saunders

1 Member of the Audit Committee
2 Member of the Pension Committee
3 Member of the Human Resources and Corporate Governance Committee

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Transfer agent and registrar
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Telephone: (514) 982-7555 or 1-800-564-6253
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Auditors
KPMG LLP

Stock listing
The Toronto Stock Exchange

Trading symbol
WJX

Common share trading information during 2002

Open	High	Low	Close	Volume of Shares Traded
$4.66	$7.25	$3.55	$3.90	1,804,426

Quarterly earnings reports
Earnings releases in 2003 are anticipated to be announced on May 2, August 12 and November 4.

Investor information
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To obtain a delayed stock quote, read news releases, listen to the latest analysts' conference call, and stay abreast of other company news, visit our web site at www.wajax.com.

Annual Meeting
Shareholders are invited to attend the Annual Meeting of Wajax Limited, to be held in the Royal Bank Theatre of the Living Arts Centre, 4141 Living Arts Drive, Mississauga, Ontario, Canada, on Friday, May 2, 2003, at 11:00 a.m.

Vous pouvez obtenir la version française de ce rapport en écrivant à la Secrétaire, Wajax Limitée, 3280 Wharton Way, Mississauga (Ontario) L4X 2C5

Interbrand, Toronto Printed in Canada

Branch listings

Mobile Equipment

Wajax Industries Limited Eastern Canada
Wabush, NL
Dartmouth, NS
Moncton, NB
Fredericton, NB
Quebec City, QC
St-Felicien, QC
Lachine, QC
Granby, QC
Ottawa, ON
Mississauga, ON
Milton, ON
London, ON
Windsor, ON
Lively (Sudbury), ON
Timmins, ON
Thunder Bay, ON

Wajax Industries Limited Western Canada
Campbell River, BC
Nanaimo, BC
Terrace, BC
Prince George, BC
Kamloops, BC
Langley, BC
Sparwood, BC
Fort McMurray, AB
Grande Prairie, AB
Edmonton, AB (2)
Calgary, AB
Saskatoon, SK
Winnipeg, MB
Dryden, ON

Industrial Components

Kinecor Western region
Prince George, BC
Surrey, BC
Calgary, AB (2)
Nisku, AB
Edmonton, AB
Saskatoon, SK
Regina, SK
Winnipeg, MB
Flin Flon, MB
Thompson, MB
Yellowknife, NT

Central region
Concord, ON
Windsor, ON
Sudbury, ON
Sarnia, ON
Brampton, ON
Scarborough, ON
Stoney Creek, ON
Thunder Bay, ON
Marathon, ON
Longlac, ON
Sault St. Marie, ON
Kapuskasing, ON
North Bay, ON
Timmins, ON
Espanola, ON
Hearst, ON
Temiscaming, QC

Eastern region
Wabush, NL
Corner Brook, NL
Mt. Pearl, NL
Charlottetown, PE
Port Hawkesbury, NS
Dartmouth, NS
New Glasgow, NS
Kentville, NS
Bathurst, NB
St. Laurent, QC (2)
Sept Iles, QC
Sherbrooke, QC
Thetford Mines, QC
Valleyfield, QC
Drummondville, QC
Granby, QC
Chicoutimi, QC
Trois Rivieres, QC
Tracy, QC
Longueuil, QC
Ville d'Anjou, QC
Quebec City, QC
Noranda, QC
Val d'Or, QC
Ottawa, ON

Spencer Industries
Kent, WA
Spokane, WA
Yakima, WA
Pasco, WA
Portland, OR
Ontario, CA
Modesto, CA
San Diego, CA
Salt Lake City, UT
Phoenix, AZ
Gillette, WY
Billings, MT
Boise, ID

Diesel Engines

Waterous Detroit Diesel-Allison
Medicine Hat, AB
Calgary, AB (2)
Red Deer, AB
Edmonton, AB
Grand Prairie, AB
Fort McMurray, AB
Fort St. John, BC

Detroit Diesel-Allison Canada East
Val d'Or, QC
Saint Nicephore, QC
Dorval, QC
Ste-Foy, QC
Dartmouth, NS
Mount Pearl, NL

*For a detailed listing of branches, go to www.wajax.com


WAJAX
> Container
> Delimbers > Excavators >
> Forwarders >
> Mining products > Paving
> Utility equipment >
> Heat exchangers > Hoists >
> Motors >
> Process
> Natural gas engines >
> Propellers >
> Cranes >
> Forest feller bunchers > Forest
> Loader backhoes > Log loaders
> Shovels > Skidders > Trucks
> Bearings > Cylinders > Heat
>
> Power transmission
> Diesel engines >
> Power
WAJAX PARTS
www.wajax.com